MNI Czech National Bank Preview: September 2025

Details:

Monetary Policy Decision	**September 24th**	**13:30BST/14:30CEST**
Press Conference	**September 24th**	**14:00BST/15:00CEST**
Minutes	**October 3rd**	**08:00BST/09:00CEST**

MNI Point of View: Another Hold As Inflation Risks Abound

The Czech National Bank (CNB) is poised to leave the two-week repo rate unchanged at the near-neutral level of 3.50% for the third consecutive meeting as inflationary risks continue to linger. The unanimous consensus call for an on-hold decision is underpinned by latest communications from Czech central bankers, signalling the intention to stand pat on rates amid elevated services inflation, robust wage growth, overheating property market, and fiscal uncertainty. We align with consensus and expect no dissenting votes, with Governor Aleš Michl likely to deploy hawkish-leaning rhetoric and reaffirm determination to tackle existing price pressures. Hawkish risks lie in forward guidance, with market participants keen to learn if Governor Michl's message on the outlook for interest rates becomes any more directional. While the Bank Board has not formally declared an end to its rate-cutting cycle, it repeatedly emphasised that current conditions are by no means conducive to a resumption of monetary easing.

The familiar slew of inflationary risks continues to haunt the Bank Board as it heads into the next monetary policy meeting. The closely-watched quarterly labour market report showed that wages continued to grow faster than productivity and exceeded both market and CNB forecasts, which fuelled concerns about demand-side pressures in the economy. The real estate market remains in disequilibrium, with rising property prices spilling over into inflation via imputed rents. Higher-frequency data showed that August CPI was marginally softer than pencilled in by the CNB (+2.5% Y/Y versus +2.7%) but its structure remained hawkish, with core inflation ticking higher as expected and services inflation staying elevated (+4.4% Y/Y) – prompting CNB staff to comment that 'overall price developments in the domestic economy have not yet fully stabilised'. Finally, the looming parliamentary elections (October 3-4) may upend fiscal consolidation, with front-runner ANO vowing to put an end to the 'austerity obsession' and 'fiscal self-flagellation'.

A barrage of comments from Czech policymakers ahead of the blackout period reflected this picture, with several members signalling their commitment to keep interest rates unchanged for a while. Deputy Governor Jan Frait told Bloomberg that further rate cuts are not warranted, adding that monetary policy is no longer restrictive and 'the current level of interest rates and the exchange rate are together having a neutral effect on the economy'. Fellow Deputy Governor Zamrazilová disagreed on current level of restrictiveness but argued that monetary policy must remain 'at least slightly restrictive' – as it is at the moment. Jakub Seidler concurred that keeping rates on hold was the optimal strategy for now, while Jan Kubíček (a hawkish dissenter in May) went as far as to suggest that 'the likelihood is higher that the next move will be upwards, but I do not know when'. Interestingly, over in Poland, NBP Governor Adam Glapiński said at a press conference that Czech colleagues were in a position where they might be forced into an awkward policy reversal – adding that this scenario was being discussed in Czechia.

To an extent, the conservative Bank Board has had the exchange rate do some of its work in terms of containing price pressures. Increasingly cautious forward guidance has underpinned continued koruna appreciation, with EUR/CZK trending comfortably below the CNB Summer Forecast. The pass-through from a strengthening koruna exchange rate may help the Bank Board buy some time to monitor inflation developments and the evolution of risks before deciding on further interest-rate action.

With the two-week repo rate sitting in broadly defined neutral area, we expect the CNB to sit on its hands again, with Governor Michl reaffirming its inflation-fighting credentials and strategically hawkish posture. Facing persistent inflationary risks, the Bank Board will likely prefer to maintain the current monetary policy parameters at least for the remainder of this year, while it observes trends in domestic property market, tracks the development of services price inflation, assesses wage dynamics (with the next quarterly report due on December 4), and reviews the implications of the upcoming elections for the fiscal outlook for next year and beyond. With analysts calling for an on-hold decision this week in virtual unison, the focus will be on the message deployed by the Bank Board. At the previous press conference, Governor Michl decided not to 'make any firm statement about the future path of interest rates' – the market would take note of any hawkish adjustment to this non-committal message.

Sell-Side Views

BNY Mellon: CNB Expected To Keep Repo Rate On Hold

- They expect the CNB to keep the two-week repo rate at 3.5% after August headline inflation eased to +2.5% Y/Y, while core inflation edged up to +2.8% Y/Y, and the Bank has described the structure of price pressures – especially food and services – as unfavourable.
- They also note that the CNB's September communications report that all respondents in its August financial market survey expect an unchanged decision at the next meeting. Recent official messaging has also cautioned against further cuts for now, noting that the prevailing policy stance, together with the exchange rate, is broadly neutral.
- Overall, the combination of near-target headline inflation, slightly firmer core readings and guidance from the CNB supports expectations for a hold while it gauges progress toward the +2% Y/Y target.

CBA: Wage Growth To Be Main Argument For Keeping Rates Unchanged

- The Czech Banking Association write that higher-than-expected wage growth will be the main, but not the only, reason for keeping the interest rate at 3.5% at the CNB's September meeting and for the intensification of the hawkish tone in the communication.
- In their view, communication may indeed indicate a further upward movement in the interest rate, but rather in an unspecified distant horizon. A stronger koruna or tighter monetary policy through the longer end of the yield curve is unlikely to lead the CNB to a dovish mindset.
- The Bank Board will thus again not follow the CNB's August forecast, which had predicted one CNB interest rate cut to 3.25% by the middle of next year. This is mainly due to stronger wage growth, unadjusted for productivity growth. Should this divergence continue in the third quarter, it could push the interest rate outlook up by around half a percentage point.
- The koruna has appreciated more strongly, but so far it is on average 1% stronger against the euro than the CNB had counted on. If the CNB were to come to the strong belief that EURCZK around 24.3 could last into this year's final quarter, then the undershooting of the CNB's forecast would be around 3%. This - were it not for stronger wage growth - could have a dovish effect on the Board. Even so, the Board might quietly ignore this message in view of the upcoming October elections, which may change the fiscal trajectory.

Česká spořitelna: Rates & Communication On Hold

- In their view, the CNB will leave interest rates and slightly hawkish communications unchanged, as inflationary pressures remain elevated.
- The CNB may express concern with a significant beat in Q2 wage data, and it cannot be ruled out that it may communicate the possibility of a future rate hike if inflationary pressures remain high.

ČSOB: Rates To Stay Unchanged For Some Time

- They expect a longer-term stability of the two-week repo rate at 3.50%, with CNB rhetoric staying hawkish on the back of persistent inflationary risks – especially services inflation, rapid wage growth, and robust property price growth.

Goldman Sachs: No Change This Week, But Terminal Rate Seen At 2.75%

- They expect the CNB to keep the policy rate unchanged at 3.50% and think that the hurdle for further monetary easing remains elevated, as many CNB Board members consider 3.50% to be the neutral rate level for Czechia.
- The CNB's guidance was hawkish at the two most recent MPC meetings (where it has kept rates on hold), reflecting the board's assessment that inflationary risks are to the upside and that ongoing domestic pressures (rising demand, property prices and services inflation) preclude further cuts for the time being.
- Goldman expect the board to reiterate this hawkish guidance in the accompanying press release – while inflation has surprised the CNB's forecast slightly to the downside recently, at +2.5% Y/Y in August, the driver of the decline has been noncore, so they do not expect this to change the board's general outlook.
- They remain less concerned than the CNB and consensus on the Czech inflation outlook – given the openness of Czechia's economy, they believe external factors typically dominate domestic factors in driving inflation dynamics.
- Year to date, the koruna has appreciated by ~7% on a trade-weighted basis and the CNB's relatively hawkish stance is continuing to contribute to further appreciation pressure. Furthermore, the external inflationary environment remains benign, in particular relatively weak global commodity prices, which should provide an additional disinflationary impulse.
- Goldman believe these factors will contribute to a decline in both headline and core inflation throughout the rest of the year and, reflecting this, they expect the CNB eventually to continue its cutting cycle, with the policy rate reaching a terminal rate of 2.75% next year.

ING: Sailing In Neutral Gear With Stable Rates

- ING write that the Czech economy is gradually entering a fully-fledged rebound, supported by vibrant household spending, booming construction, and signs of stabilisation in industry. Against this backdrop, the currently negative output gap, which indicates that the economy is still operating slightly below its potential, is expected to close over the coming quarters and turn positive by mid-next year.
- They point to an upside surprise in 2Q25 wages and not that they don't share the CNB's expectation of a gradual cool-down. They believe that wage dynamics will likely surprise to the upside over the next two years, should the assumption of a booming economy hold. In their view, the potential of a classical wage-price spiral represents one of the looming inflationary risks when looking ahead, warranting a restrictive monetary policy setup now.
- As the economy is only expected to reach its full potential over the next year, conditions may appear calm for now. But that's a misleading impression – complacency is not a fitting stance for a forward-looking central banker. Especially as the emission allowances for households and small firms (ETS2) are set to be implemented at the onset of 2027, representing a substantial yet hard-to-quantify upward risk to consumer prices.
- They think that inflation risks, a booming housing market and resilient credit conditions, still-elevated services price growth, and the likelihood of more expansionary fiscal policy following the upcoming election imply that rate cuts will not be discussed any further unless a major shock hits the global or eurozone economy.

JP Morgan: Hawkish Bias Will Persist

- JP Morgan expect the CNB will keep rates on hold at 3.5% with a unanimous 7-0 vote.
- They note that inflation has remained sticky above target, growth is solid, wage growth is elevated and the housing market is hot, so they think the hawkish bias will persist.

J&T Banka: Stable Rates For Longer Period

- They write that the CNB is expected to keep the repo rate unchanged at 3.50% for longer, and should confirm its hawkish bias this week.

Komerční banka: Rate Cut Cycle Is Not Over

- In their view, the CNB is unlikely to cut interest rates after keeping them on hold since May.

- The central bank's communication remains hawkish, emphasizing inflation risks, especially due to increased growth in services and property prices, as well as wages, and also pointing to risks associated with fiscal policy.
- After an overall easing of 350 basis points between December 2023 and May 2025, the CNB will now likely wait until newly incoming data clarify the economic outlook, especially with regard to the impact of US tariffs. At this meeting, central bankers will evaluate the fulfilment and risks of the August macroeconomic forecast.
- Komerční banka think that the risks to the CNB forecast are two-sided. On the one hand, wage growth exceeded expectations in 2Q25. On the other hand, inflation in August was slightly lower than expected by the central bank.
- Unlike the CNB, they predict a slowdown in the domestic economy in 2H2025, when the effect of US stockpiling should weaken and tariffs should negatively affect growth. They still assume that the rate cut cycle is not over and the koruna is currently too strong. In their updated forecast for the domestic currency exchange rate, they assume a correction of koruna gains towards 24.50 CZK/EUR by the end of the year.

Reiffeisenbank: On Hold

- They note that it would be surprising if the CNB decided to change the level of interest rates amid widespread expectations of a hold.

UniCredit: Rates On Hold At Least Until 2Q26

- In their view, faster-than-expected wage growth in 2Q25 and still-elevated service prices likely mean there is no room for an additional rate cut by the CNB this year.
- UniCredit expect the CNB to keep rates on hold at 3.50% at least until 2Q26.